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Anglo American
Corporation
of Canada Limited

amcan

Annual Report 1975

Directors

J. L. Carpenter
Executive Vice-President
Hudson Bay Mining and Smelting Co., Limited

A. M. Doull
Vice-President, Anglo American Corporation of Canada Limited,
Senior Vice-President – Finance, Hudson Bay Mining and Smelting
Co., Limited

H. R. Fraser
Chairman, Chief Executive Officer and President,
Anglo American Corporation of Canada Limited,
Chairman and Chief Executive Officer,
Hudson Bay Mining and Smelting Co., Limited

M. B. Hofmeyr
Managing Director,
Charter Consolidated Limited

R. H. Jones
President and Chief Executive Officer,
The Investors Group

W. A. Morrice
President,
Hudson Bay Mining and Smelting Co., Limited

H. F. Oppenheimer
Chairman and Executive Director,
Anglo American Corporation of South Africa Limited

G. W. H. Relly
Executive Director,
Anglo American Corporation of South Africa Limited

S. Spiro
Chairman, Charter Consolidated Limited

J. D. Taylor, Q.C.
Manager, Anglo American Corporation of South Africa Limited

Officers

H. R. Fraser
Chairman, Chief Executive Officer and President

A. M. Doull
Vice-President

C. K. Taylor, Q.C.
Secretary

K. S. Dalton
Treasurer

I. Wolfe
Assistant Secretary

P. H. Page
Assistant Treasurer

Report of the Directors

The accompanying financial statements show that in 1975 Amcan had consolidated net income of \$5,702,000 or \$0.57 per share, compared with \$11,946,000 or \$1.20 per share in 1974. These figures include Amcan's equity in the undistributed income of effectively controlled companies which showed a decline from \$7,309,000 in 1974 to a negative amount of \$2,482,000 in 1975. In part, this was the result of Francana Development Corporation Ltd. paying a dividend greatly in excess of its current year's earnings, but also reflects the lower undistributed earnings of Hudson Bay Mining and Smelting Co., Limited.

Dividend income was higher in total by \$2,340,000. This was due to the \$3,000,000 dividend received from Francana Development compared with \$96,000 received in 1974, offset by lower dividend receipts from Hudson Bay Mining which halved its fourth-quarter dividend payment. Both income from the joint venture with Whitehorse Copper Mines Ltd. and net interest income declined, but the results of securities trading produced a profit of \$583,000, compared with a net loss of \$2,197,000 in the previous year.

Dividend payments were maintained at 40¢ per share in 1975 at an unchanged cost of \$3,972,000.

Amcan's net asset value at December 31, 1975, including quoted investments at market value and unquoted assets at the lower of cost or Directors' valuation, was \$87,056,000 or \$8.76 per share, compared with \$81,832,000 or \$8.24 per share at the end of 1974. Market values have increased substantially since then and at February 29, 1976, the corresponding figure was \$101,994,000 or \$10.27 per share.

There were a number of changes in Amcan's investments during 1975. The most significant occurred in September when the 40% interest in Francana Development was sold to Credit Foncier Franco-Canadien, the holder of the remaining 60%. Thereafter, Francana Development sold to Amcan 182,400 shares from its interest in Hudson Bay Mining and 2,205,012 shares of Francana Oil & Gas Ltd. Amcan now holds a 28.3% direct interest in Francana Oil & Gas which is a 55.0% subsidiary of Hudson Bay Mining. Amcan also sold its 24.5% interest in Consumers Oil Limited during the year and in March 1976 sold its interest in Agnew Lake Mines Limited.

Hudson Bay Mining and Smelting Co., Limited

Amcan's major asset continues to be Hudson Bay Mining in which its total interest is now 38.5%. Net earnings in

1975 of Hudson Bay Mining were \$14,771,000, equal to \$1.49 per share, down from \$44,968,000, or \$4.52 per share, in 1974. The 1974 results have been restated to reflect a change in the method of inventory valuation. Operations and investments outside Canada produced \$9,047,000 or 61% of these net earnings, compared with 19% in 1974. As a result of the reduced earnings, Hudson Bay Mining in the fourth quarter reduced its regular dividend of 40¢ per share to 20¢. The 1975 net earnings were adversely affected by greatly increased operating costs, higher taxes and weak metal markets. In fact, the base-metal mining and smelting operations incurred a pre-tax loss of \$249,000, compared with a pre-tax profit of \$42,067,000 in 1974 and \$45,708,000 in 1973. The contributions of oil and gas operations, and fertilizers and chemicals to earnings before taxes and minority interests in 1975 were \$32,843,000 and \$31,571,000, respectively.

During 1975 Hudson Bay Mining continued its geographic and product diversification policy with acquisitions of an interest in a U.S. base-metal mining company and an increased interest in U.S. fertilizer and chemical operations. These included an equity interest of approximately 18% in Inspiration Consolidated Copper Company, of Morristown, New Jersey. Inspiration's principal operations are in the State of Arizona where it has open-pit copper mines, a smelter, refinery and a copper rod fabricating plant. The company also smelts copper-bearing materials for other producers on a custom basis. Hudson Bay Mining increased its interest in Terra Chemicals International, Inc., of Sioux City, Iowa, to approximately 51% from about 30%, and increased its interest in Canadian Merrill Ltd., a Calgary-based oil and gas company, to approximately 29% from 23%.

A major part of the capital expenditures and investments of approximately \$280 million made during the past three years have been financed from internal cash flow. In 1975, Hudson Bay Mining raised U.S. \$50,000,000 through a public offering of debentures in the United States. This was the first such offering by a Canadian corporation since the Canadian withholding-tax rules were amended late in the year.

The revenues of Terra Chemicals for 1975 increased by 7.6% to U.S.\$110,653,000 but net earnings decreased by 13% from 1974 record earnings to \$18,564,000. The company's pre-tax earnings were \$36,754,000, down 4% from the \$38,275,000 reported in 1974. Terra Chemicals' effective tax rate in 1975 increased to 49.5% from 44.1% in 1974 and thus was an important factor in reducing net earnings. Terra Chemicals has now had two years of very

favourable earnings and in that period has retired \$24,473,000 of long-term debt and \$1,176,000 of preferred stock, giving the company a very strong, virtually debt-free balance sheet. Terra Chemicals manufactures nitrogen-based fertilizers and nitrogen feed ingredients and purchases other chemical fertilizers which are blended with the company's nitrogen products. Approximately 70% of Terra Chemicals' output is marketed to the farmer through 57 retail farm-service centres in its primary seven-state Midwest marketing area. The company also sells nitrogen, phosphates and potash products to wholesale customers throughout the United States.

Hudson Bay Mining's Sylvite of Canada division produced 901,000 tons and sold 971,000 tons of refined potash in 1975. The comparable figures for 1974 are 1,093,000 tons produced and 1,076,000 tons sold. Production was lower because of a 13-week shutdown caused by a fire in the headframe of the production shaft. Reserves of potash at the end of 1975 totalled 340 million tons of ore, compared with 350 million tons a year earlier. The Saskatchewan Legislature passed legislation in January, 1976, authorizing the Government to acquire by purchase or expropriation some or all of the potash mining assets in the province. The Government has indicated that its initial goal is provincial ownership of at least 50% of the potash-producing capacity in Saskatchewan and that it expects its initial acquisition to be completed within 18 months. The Government has informally advised Hudson Bay Mining that it may wish to acquire its Sylvite of Canada division. Hudson Bay Mining is unable to predict the effects of the legislation on its future operations.

Western Decalta Petroleum Limited, in which Hudson Bay Mining holds a 35.7% interest, had consolidated gross income totalling \$17,236,000 during 1975, compared with \$14,430,000 in 1974. Net income increased to \$4,914,000 from \$3,478,000, and cash flow before income taxes rose by \$1,915,000 to \$11,700,000. Improved product prices were partially offset by lower sales volumes and higher operating costs. Gross expenditures for acquiring, finding and developing reserves of crude oil and natural gas in 1975 totalled \$10,970,000, down from \$11,677,000. Reserves at year-end were 36,152,000 barrels of crude oil, including natural gas liquids, and 213 billion cubic feet of natural gas, compared with 35,564,000 barrels and 228 billion cubic feet, respectively, at the end of 1974. On March 18, 1976, Hudson Bay Mining announced that it has agreed, subject to certain conditions, to sell its interests in Western Decalta for \$36,322,000.

Canadian Merrill's gross revenue from all operations for its fiscal year ended June 30, 1975, totalled \$12,070,000, compared with \$10,263,000 for the previous year. Cash

flow decreased to \$2,126,000 from \$2,203,000 due to higher costs in the well-servicing operations. Income before extraordinary items totalled \$437,000, compared with \$650,000. Net income after extraordinary items increased to \$495,000 from \$388,000 for the previous year. In the six months ended December 31, 1975, Canadian Merrill has shown improved results with cash flow at \$1,061,000 and net income before and after extraordinary items at \$235,000 and \$450,000, respectively. During 1975 Canadian Merrill adopted the policy of directing all its resources into the exploration and production segments of the oil and gas industry. Accordingly, oil and gas reserves were purchased and arrangements made to sell its well-servicing and equipment sales and rentals divisions. Reserves at June 30, 1975 totalled 257 billion cubic feet of gas and 1,538,000 barrels of oil, compared with 185 billion cubic feet of gas and 1,754,000 barrels of oil a year earlier.

In 1975, ore production at Hudson Bay Mining's Flin Flon operations totalled 1,470,000 tons, 101,000 tons less than the tonnage mined in 1974 because of the continuing shortage of trained underground labour. Proven reserves of copper-zinc ore in the company's mines in Flin Flon-Snow Lake area at year-end totalled 17,454,000 tons, assaying 0.033 ozs. of gold per ton, 0.52 ozs. of silver per ton, 2.77% copper and 2.8% zinc. Ore reserves at the end of 1974 totalled 17,974,000.

Francana Oil & Gas Ltd.

As noted earlier in this report, Amcan now holds a direct interest of 28.3% in Francana Oil & Gas as well as its indirect interest through Hudson Bay Mining's 55.0% interest.

Francana Oil & Gas' results in 1975 showed large gains over the comparative figures for 1974, with consolidated gross revenue increasing to \$55,416,000 from \$18,496,000 in 1974, and funds generated from operations totalling \$30,994,000, up from \$8,651,000. Total exploration and development expenditures, including land acquisition and retention, geological and geophysical work, drilling and production equipment, amounted to \$24,070,000, compared with \$13,015,000 in 1974, and net earnings were \$10,125,000, up from \$5,218,000.

These improvements are to a large extent due to the fact that Francana Oil & Gas consolidated its 57% interest in Trend International Limited for a full year. Trend's most important asset is its 27% working interest in a Production-Sharing Contract with Pertamina, the Indonesian state-owned oil company. Trend also acts as operator for the consortium associated with Pertamina. Total oil production from the Indonesian operations in

1975 was 22,975,000 barrels, compared with 11,168,000 barrels in 1974. Trend's share of sales in 1975 was 3,074,000 barrels. Although production capacity was less than anticipated due to logistical problems and increasing water production from some of the wells, output was more than 70,000 barrels a day at year-end.

Construction projects in 1975 at the Indonesian operations included: a gathering and pipeline system; a central processing facility at the Kasim marine terminal; permanent dock and other harbour facilities; dredging of the Sele Channel to permit 80,000-ton tankers to dock at the terminal; and a crude-oil topping plant that will produce diesel fuel, gasoline, and aviation fuel for use in the Irian Jaya concession. Plans for 1976 include the construction of permanent staff facilities. Trend's international prospects include: an 18.5 million-acre prospecting permit in Paraguay; a 369,000-acre concession area in the Cameroon, which is expected to be issued during early 1976; continuing interests in the U.K. sector of the North Sea; and evaluation of a potash occurrence in Thailand.

Proven North American reserves of Francana Oil & Gas at year-end were 11,302,000 barrels of crude oil and natural gas liquids, compared with 14,078,000 barrels at the end of 1974, and 82 billion cubic feet of natural gas (97 billion cubic feet at the end of 1974). Proven reserves of Trend in North America totalled 5,066,000 barrels of crude oil and natural gas liquids and 13 billion cubic feet of natural gas, compared with 5,064,000 barrels and 12 billion cubic feet, respectively, at the end of 1974.

Whitehorse Copper Mines Ltd.

Amcan and Hudson Bay Mining each hold a 20.6% interest in this company as well as a one-sixth interest in a joint venture with Whitehorse Copper Mines holding the remaining two-thirds.

The income of Whitehorse Copper Mines is derived from the joint venture. However, the Company suffered a loss in 1975 of \$749,000, compared to a profit of \$3,043,000 in 1974. The results were adversely affected by weak copper and gold prices and by increased operating, transportation and smelting costs.

The amount of ore milled at the joint venture increased significantly from 627,000 tons grading 1.84% copper in 1974 to 738,000 tons grading 1.52% copper. Concentrate production was 27,700 tons grading 36% copper; however, contained copper at 20,062,000 lbs. was 749,000 lbs. lower than in 1974 because of the lower ore grade. There are plans to install an underground conveyor system in 1976 which should further improve the amount of ore mined. Underground drilling during the year resulted in

some additions to the orebody but not sufficient to maintain reserves, which at December 31, 1975, stood at 3,055,000 tons grading 2.35% copper.

Lytton Minerals Limited

Amcan's interest in the La Verde copper deposit in Mexico, through its 33.9% holding in Lytton Minerals Limited, was reported in detail in the annual report for 1974. In preparing for the development of the property, it became obvious that the project would be adversely affected by the inflationary conditions existing throughout the industrial world. In view of cost increases and against the background of a continuing depressed copper market and a growing burden of copper inventories in the world, the directors of Compania Cuprifera La Verde, S.A., of Mexico City, in which Lytton holds a 48% interest, decided to re-examine the entire project.

Detailed studies were undertaken by the La Verde staff in co-operation with the engineering consultants, Wright Engineers Limited, of Vancouver, and Ingenieria Panamericana S.A., of Mexico. Amcan and Hudson Bay Mining also participated in the co-ordination of the feasibility study as technical supervisors to the project. The feasibility submission was presented to the directors of La Verde in January, 1976.

In spite of pruning capital costs as far as possible, these are now estimated at \$121 million, compared with \$101 million as previously reported. Operating costs have also been subject to inflation with adverse effects on the project's economic return. Accordingly, the directors and shareholders of La Verde are again reassessing the project and a decision is expected in the near future.

Tombill Mines Limited

The major interests of Tombill, a 50.7% subsidiary of Amcan, continued to be a holding of 154,500 shares of Hudson Bay Mining and a 40% interest in Francana Minerals Ltd., the remaining 60% of which is owned by Hudson Bay Mining. Francana Minerals recorded its most profitable year in 1975 and results would have been even better had not production and sales been adversely affected by operating problems. Sales in 1976 will be limited by the amount of raw material available, as contracts have been signed for the full projected output from Francana Minerals' two plants in Saskatchewan.

During 1975 Tombill was involved, through financing an associated company or directly for its own account, in drilling for uranium in Saskatchewan and for gold in British Columbia and in Ontario. Mineral values were found but not in sufficient quantities to warrant additional work.

Tombill also maintained its 10% share in Amcan's interest in the joint prospecting agreement with Hudson Bay Mining, covering all of Canada except the provinces of Manitoba and Saskatchewan. Results of this program are given later in this report.

Minsearch Surveys Limited

This company, in which Amcan holds an interest, concentrated on developing the Barringer AIRTRACE system to an operational state in 1975. AIRTRACE is an airborne biogeochemical survey system that detects minerals and hydrocarbons in underlying bedrock by collecting and analyzing atmospheric particulates. As a result of intensive study, major improvements were made in equipment design and data treatment.

As a result of this development work, Minsearch decided to charter helicopters for carrying the equipment instead of using its DC-3 aircraft, which has been sold.

Minsearch is now offering the AIRTRACE system to industry for funded tests or production surveys on a world-wide basis.

AIRTRACE is a patented system invented by Dr. A. R. Barringer, of Barringer Research Limited. Barringer retains a 50% interest in Minsearch and a 70% interest in Barringer Hydrocarbons Limited which is licensed to use the system for hydrocarbon exploration. The remaining equity in each case is owned by Amcan, Hudson Bay Mining and Minerals and Resources Corporation Limited.

Ambay Services Limited

This company, owned equally by Amcan and Hudson Bay Mining, is the vehicle used for managing the cash resources of the Amcan and Hudson Bay Mining groups and associated companies. Surplus funds are invested in appropriate short-term instruments and financing provided or arranged as necessary for associated companies. As an example, short-term finance of up to \$25,945,000 was provided to Hudson Bay Mining for a time pending receipt by that company of the proceeds of its long-term debt financing.

Exploration

Amcan continued to participate with Hudson Bay Mining in an exploration programme in the Yukon, Northwest Territories, Ontario and Quebec. In the Yukon, zinc-lead mineralization was discovered and was tested by 12 diamond-drill holes. Further drilling will be done in 1976 to investigate its economic potential.

In 1974, Amcan began to explore for gold in the Yukon River. This programme was continued in 1975 and the

results to date are encouraging enough to warrant further exploration.

Venture Capital Interests

Amcan holds an interest of 10.2% in Sterisystems Limited, a company mainly involved in hospital television rentals and the production of Vitamin E. Revenue for 1975 was \$9,039,000, compared with \$7,676,000 the previous year, and net earnings were somewhat lower than in the previous year.

PolyCom Systems Limited, in which Amcan has a 19.6% interest, had consolidated revenues of \$1,295,000 for 1975, compared with \$1,674,000 for 1974. The net loss, after extraordinary items, was \$320,000, compared with \$118,000 in the previous year. PolyCom decided to concentrate its efforts on its time-sharing activities and revenues for this division increased by 19%. The overall reduction in revenues was due to the sale of the assets of other divisions.

Management

At the Annual General Meeting in April, 1975, two directors, M. W. Rush and I. D. Davidson, C.B.E., both of whom had given many years of valuable service to Amcan, retired from the Board. Mr. Davidson had been a director since August, 1966, and Mr. Rush since July of the same year when he was also appointed President, a post he held until his return to South Africa early in 1970. Mr. Rush made many outstanding contributions, particularly to the early growth of Amcan and the Board is most grateful to both these gentlemen.

J. D. Taylor, Q.C., resigned as President of Amcan in January, 1976, in order to accept a senior post in Johannesburg with Anglo American Corporation of South Africa Limited; however, he continues as a director. H. R. Fraser, then Chairman and Chief Executive Officer, assumed the additional office of President.

In January, 1976, H. A. McKenzie resigned for personal reasons from Hudson Bay Mining and as a director of Amcan; he had been a director since March, 1973. J. L. Carpenter, Executive Vice-President of Hudson Bay Mining, was appointed a director in his stead.

Other appointments include: K. S. Dalton, who is Vice-President - Finance of Hudson Bay Mining, as Treasurer; P. H. Page as Assistant Treasurer, and Mrs. I. Wolfe as Assistant Secretary.

On behalf of the Board of Directors,

H. Ronald Fraser
Chairman

March 18, 1976

Anglo American Corporation of Canada Limited
and its Subsidiaries

Consolidated Statement of Income and Retained Earnings
for the year ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
Income:		
Dividends:		
Effectively controlled companies (Note 2).....	\$ 8,214,000	\$ 5,638,000
Other.....	106,000	342,000
Interest.....	1,570,000	3,304,000
Profit (loss) on trading securities (Note 1).....	583,000	(2,197,000)
Joint venture.....	300,000	1,009,000
Miscellaneous.....	63,000	55,000
Total income.....	<u>10,836,000</u>	<u>8,151,000</u>
Expenses:		
Prospecting and exploration (Note 1).....	2,454,000	1,273,000
Interest:		
Affiliated companies.....	—	223,000
Other.....	858,000	1,263,000
Depreciation and amortization.....	34,000	30,000
Other operating expenses, less recoveries, 1975 – \$403,000; 1974 – \$465,000..	759,000	808,000
Net expenses.....	<u>4,105,000</u>	<u>3,597,000</u>
Income Less Expenses.....	6,731,000	4,554,000
Provision for Taxes (Note 6).....	618,000	3,000
Income Before the Following Items.....	6,113,000	4,551,000
Minority Interest.....	73,000	—
Gain on Realization of Investments – less provision for loss on investments (1975 – Nil; 1974 – \$17,000).....	1,386,000	86,000
Income Before Equity Adjustment.....	7,572,000	4,637,000
Equity Adjustment (Note 2).....	(2,482,000)	7,309,000
Income Before Extraordinary Item.....	5,090,000	11,946,000
Tax Reduction on Application of Prior Years' Losses.....	612,000	—
Net Income.....	5,702,000	11,946,000
Retained Earnings at Beginning of the Year.....	48,077,000	41,069,000
Add – refundable taxes recoverable (Note 6).....	859,000	769,000
	<u>54,638,000</u>	<u>53,784,000</u>
Less:		
Dividends paid.....	3,972,000	3,972,000
Refundable taxes not yet recoverable (Note 6).....	963,000	1,735,000
	<u>4,935,000</u>	<u>5,707,000</u>
Retained Earnings at End of the Year.....	\$ 49,703,000	\$ 48,077,000

The accompanying notes are an integral part of the financial statements.

Anglo American Corporation of Canada Limited
(Incorporated under the Canada Corporations Act)
and its Subsidiaries

Consolidated Balance Sheet
as at December 31, 1975
(with 1974 figures for comparison)

ASSETS

	1975	1974
Current Assets:		
Cash.....	\$ 1,000	\$ —
Accrued interest and dividends receivable.....	887,000	1,724,000
Accounts receivable.....	1,674,000	2,413,000
Notes and deposits – affiliated companies.....	16,490,000	8,714,000
Loans receivable.....	1,697,000	1,302,000
Trading securities – at the lower of cost or market value (market value, 1975 – \$4,087,000; 1974 – \$7,773,000) (Note 1).....	4,087,000	7,748,000
Total current assets.....	24,836,000	21,901,000
Investments (Note 2).....	150,701,000	139,048,000
Fixed Assets (Note 3).....	479,000	416,000
Total.....	\$176,016,000	\$161,365,000

Approved by the Board:

H. R. FRASER, *Director*

W. A. MORRICE, *Director*

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current Liabilities:		
Bank indebtedness.....	\$ —	\$ 47,000
Accounts payable and accrued charges.....	2,261,000	1,676,000
Accrued interest payable.....	367,000	38,000
Loans and deposits.....	129,000	576,000
Income debentures (Note 4).....	12,630,000	2,000,000
Taxes payable.....	157,000	949,000
Total current liabilities.....	15,544,000	5,286,000
Income Debentures (Note 4).....	8,840,000	6,000,000
Minority Interest in Subsidiary.....	844,000	917,000
Shareholders' Equity:		
Capital stock (Note 5):		
Authorized:		
15,000,000 Class "A" convertible common shares without nominal or par value		
15,000,000 Class "B" convertible common shares without nominal or par value		
Issued and fully paid:		
6,319,614 Class "A" shares.....	64,335,000	64,335,000
3,609,931 Class "B" shares.....	36,750,000	36,750,000
	101,085,000	101,085,000
Retained earnings.....	49,703,000	48,077,000
Total shareholders' equity.....	150,788,000	149,162,000
Total.....	\$176,016,000	\$161,365,000

Anglo American Corporation of Canada Limited
and its Subsidiaries

Consolidated Statement of Changes in Financial Position
for the year ended December 31, 1975
(with 1974 figures for comparison)

	<u>1975</u>	<u>1974</u>
Funds Provided:		
From operations:		
Net income.....	\$ 5,702,000	\$11,946,000
Add (deduct):		
Equity adjustment.....	2,482,000	(7,309,000)
Loss (gain) on realization of investments:		
Quoted.....	(33,000)	(149,000)
Unquoted.....	(1,353,000)	49,000
Provision for loss on unquoted investments.....	10,000	17,000
Depreciation and amortization.....	34,000	30,000
Amount written off against joint-venture income.....	100,000	300,000
Funds provided from operations.....	6,942,000	4,884,000
Refundable taxes recoverable.....	859,000	769,000
Investments realized.....	13,113,000	3,164,000
Reduction in mortgages receivable.....	66,000	90,000
Fixed assets sold.....	—	2,000
Income debentures issued.....	15,470,000	8,000,000
Total funds provided.....	<u>36,450,000</u>	<u>16,909,000</u>
Funds Applied:		
Investments purchased:		
Subsidiaries (net of working capital (deficiency) acquired, 1975 – \$(2,000); 1974 – \$141,000).....	3,000	(115,000)
Unquoted.....	909,000	200,000
Effectively controlled companies.....	24,997,000	10,164,000
Joint venture.....	8,000	772,000
Mortgage advances.....	121,000	172,000
Fixed assets purchased.....	97,000	108,000
Income debentures – current portion.....	12,630,000	2,000,000
Decrease in minority interest.....	73,000	—
Dividends paid.....	3,972,000	3,972,000
Refundable taxes not yet recoverable.....	963,000	1,735,000
Total funds applied.....	<u>43,773,000</u>	<u>19,008,000</u>
Decrease in Working Capital for the Year.....	<u>7,323,000</u>	<u>2,099,000</u>
Working Capital at Beginning of the Year.....	<u>16,615,000</u>	<u>18,714,000</u>
Working Capital at End of the Year.....	<u>\$ 9,292,000</u>	<u>\$16,615,000</u>

The accompanying notes are an integral part of the financial statements.

Anglo American Corporation of Canada Limited and its Subsidiaries

Notes to the Consolidated Financial Statements December 31, 1975

1. Significant accounting policies

Principles of consolidation:

The accounts of Anglo American Corporation of Canada Limited (Amcan) are consolidated with those of its subsidiaries:

	% of Ownership
Anglo American Corporation of Canada	
Exploration Limited.....	100
Anmercosa Canadian Exploration Limited..	100
Tombill Mines Limited.....	51
Anmercosa Finance Limited.....	100
Anmercosa Holdings Limited.....	100
Anmercosa Investments Limited.....	100
Anmercosa Ventures Limited.....	100

In addition the company follows the equity method of accounting for its interest in certain investments as more fully explained in Note 2.

Interests in mining investigations:

The policy of the company is to charge income with all prospecting and exploration expenditures in respect of interests in mining investigations because the ultimate realizable value of these interests is not determinable. If an interest is proven up, sold or a participation therein is granted, the resulting recovery of value will be treated as a credit to income.

Trading securities:

In 1975 the company adopted the practice of valuing trading securities at the lower of cost or market for long positions and at the higher of sale proceeds or market for short positions, on a portfolio basis. In prior years the company valued these securities on an individual basis. This change has resulted in increased net income of approximately \$130,000 for 1975. Realized profits or losses shown in the statement of income and retained earnings include any increase or decrease in provision for unrealized losses. Market value is based on December 31 closing bid prices for long positions and ask prices for short positions.

Depreciation and amortization:

Depreciation on buildings and automobile is provided using the declining-balance method over their estimated useful lives. Amortization of leasehold improvements is provided on the straight-line basis over the term of the

lease. Furniture and office equipment are charged to income on acquisition.

Amortization of advance to joint venture:

The advance to a joint venture is being amortized over the estimated economic life of the mine which, at the present time, is the five-year period ending December 31, 1977.

Conversion of foreign currency amounts:

Foreign currency amounts in these financial statements have been converted to Canadian dollars as follows:

Current assets and current liabilities – at the year-end rates of exchange.

Investments – at the rates of exchange prevailing at the dates of purchase.

Income and expenses – at the rates of exchange prevailing at the dates of settlement.

2. Investments

	1975	1974
	(in thousands)	
At equity value:		
Effectively controlled companies at cost, plus equity in undistributed income:		
Quoted (market value, 1975 – \$79,076,000; 1974 – \$49,352,000).	\$142,761	\$117,572
Unquoted.....	1,307	11,951
At cost:		
Quoted (market value, 1975 – \$745,000; 1974 – \$1,068,000), less accumulated amounts written off, 1975 and 1974 – \$255,000.....	792	1,535
Unquoted – less accumulated amounts written off, 1975 – \$3,449,000; 1974 – \$3,439,000....	4,254	6,366
Advance to and interest in joint ventures, less accumulated amounts written off against joint venture income, 1975 – \$750,000; 1974 – \$650,000.....	980	1,072
Mortgages receivable, due on various dates up to September 1990, less current portion, 1975 – \$59,000; 1974 – \$50,000.....	607	552
	\$150,701	\$139,048

Included in unquoted investments are \$3,200,000 7% debentures of Agnew Lake Mines Limited. Payment of interest on the debentures has been deferred for six years

commencing January 1, 1971. The company has recorded the total interest accrued and, at the same time, recorded a provision for loss of an equal amount. As at December 31, 1975, the total interest accrued on the debentures and the related provision amounts to \$1,245,000. Subsequent to the year-end, the investments in Agnew Lake Mines Limited were sold for a cash consideration of \$4,875,000.

Market value of quoted investments is based on December 31 closing bid prices. In the case of large shareholdings, such value does not necessarily represent the realizable value of the company's holdings which may be more or less than the indicated market value.

The company's investments in effectively controlled companies at December 31, 1975 are comprised of:

	<u>% of Ownership</u>	<u>Underlying Equity in Net Assets</u> (in thousands)
Hudson Bay Mining and Smelting Co., Limited.....	38.51	\$83,689
Francana Oil & Gas Ltd....	28.32	16,144
Whitehorse Copper Mines Ltd.....	20.63	2,259
Lytton Minerals Limited . . .	33.94	1,526
Ambay Services Limited....	50.00	47

With the exception of Ambay, the carrying value of the investments in effectively controlled companies in each case is in excess of the underlying equity in the net assets of those companies as shown by their audited financial statements. The amount of the excess will be amortized and charged to income over the estimated economic lives of the underlying resource assets as follows:

Hudson Bay Mining and Smelting Co., Limited.....	\$30,140,000	December 31, 2002
Francana Oil & Gas Ltd.....	6,293,000	December 31, 1987
Whitehorse Copper Mines Ltd.....	408,000	December 31, 1977
Lytton Minerals Limited.....	3,110,000	See below

In the case of Lytton no amortization has been recorded since the company's major mining interest is in the early stages of development.

The company applies the equity method of accounting to its investments in effectively controlled companies. Under this method the company records its share of income or losses of these companies. The amounts recorded for the

years ended December 31, 1975 and December 31, 1974 are as follows:

	<u>1975</u>	<u>1974</u>
	(in thousands)	
Equity in income of effectively controlled companies.....	\$ 7,320	\$14,365
Less amortization of excess of carrying value over underlying equity in net assets.....	<u>1,588</u>	<u>1,418</u>
	<u>\$ 5,732</u>	<u>\$12,947</u>

These amounts are presented in the statement of income and retained earnings as follows:

	<u>1975</u>	<u>1974</u>
	(in thousands)	
Dividends – effectively controlled companies.....	\$ 8,214	\$ 5,638
Equity adjustment.....	<u>(2,482)</u>	<u>7,309</u>
	<u>\$ 5,732</u>	<u>\$12,947</u>

Joint ventures comprise an equal partnership with Consumers Oil Limited, owning and developing oil and gas leases, and a one-sixth interest in a copper mine in which Hudson Bay Mining and Smelting Co., Limited also has a one-sixth interest and Whitehorse Copper Mines Ltd. the remaining two-thirds. The company is contingently liable for all debts and obligations of the joint ventures which, at December 31, 1975, amounted to \$1,373,000, and has recourse to all of the assets of the joint ventures to discharge these liabilities in excess of its proportionate share.

3. Fixed assets

Fixed assets, recorded at cost, comprise the following:

	<u>1975</u>	<u>1974</u>
	(in thousands)	
Land and building.....	\$198	\$198
Leasehold improvements.....	417	327
Automobile.....	<u>6</u>	<u>6</u>
	621	531
Less accumulated depreciation and amortization.....	<u>142</u>	<u>115</u>
Net fixed assets.....	<u>\$479</u>	<u>\$416</u>

4. Loans, debentures and guarantees

Certain quoted investments have been lodged with banks as collateral security for the following:

- Bank line of credit of \$5,000,000 which was not utilized as at December 31, 1975.
- The \$8,840,000 non-current debentures which bear interest at 7.50% per annum and mature on or before

September 30, 1980. Interest on these debentures, included in interest expense, for the year ended December 31, 1975 amounted to \$191,000.

- (c) The \$12,630,000 debentures included in current liabilities which bear interest at fixed and fluctuating rates (approximating 6.00% at December 31, 1975) related to the lending rate of a Canadian bank and mature on or before September 30, 1976.

Amcan has guaranteed the obligations of an affiliated company as follows:

- (a) Bank line of credit for \$2,500,000.
(b) Loans payable of \$2,395,000.

5. Capital stock

The Class "A" and Class "B" shares are fully-voting, full equity shares, are convertible into each other on a one-for-one basis, and rank equally with respect to dividends and in all other respects. The only distinction between the two classes of shares is that the directors may, in declaring a dividend on the Class "B" shares, specify that the dividend shall be paid out of 1971 capital surplus on which no tax would be levied against either the company or the shareholder, or out of tax-paid undistributed income on hand. In the latter case the company pays a tax of 15% and the shareholder receives the balance of 85% which is not subject to any further income tax in his hands, although, in either case, the valuation base for capital gains purposes will be decreased by the amount received by the Class "B" shareholders.

6. Income and refundable taxes

A substantial portion of the income is not subject to income tax, except as described in the following paragraph, since it is comprised of interest on income bonds, dividends from taxable Canadian companies and undistributed income from effectively controlled companies.

Under the Income Tax Act, the company and certain of its subsidiaries are classified as private corporations and therefore taxes payable relative to certain investment and dividend income are potentially refundable and hence are not deducted in computing net income for the year. Refunds of these taxes are obtainable at the rate of \$1 for each \$3 of taxable dividends or income debenture interest paid. Should any of these companies cease to be classified as private corporations, the entitlement to refund would be lost. As at December 31, 1975, the amount of such taxes not yet recoverable was \$1,914,000.

Accumulated exploration expenditures of approximately

\$10,761,000 are available for application against taxable income of future years; in addition, losses for tax purposes totalling approximately \$1,563,000, available for application against taxable income of future years, expire as follows:

1976.....	\$ 83,000
1977.....	159,000
1978.....	4,000
1979.....	1,304,000
1980.....	13,000

7. Earnings per share

Earnings per share are as follows:

	1975	1974
Before extraordinary items.....	\$.51	\$1.20
After extraordinary items.....	.57	1.20

8. Long-term lease commitment

Under long-term lease agreements, the company is committed to pay net annual rentals of approximately \$161,000 until 1992.

9. Commitment – Lytton Minerals Limited

The company, through its investment in Lytton Minerals Limited, has an interest in certain mining properties in Mexico, the development of which is being investigated. The company has undertaken to provide approximately \$5,000,000 towards Lytton's share of any proposed plan to develop these properties.

10. Remuneration of directors and officers

Remuneration of Amcan's directors and officers for 1975 was as follows:

- (a) Ten directors received aggregate remuneration, as directors, of \$10,000.
(b) Seven officers, three of whom are also directors, received no remuneration, as officers.

Certain of the directors and officers are also directors and/or officers of the subsidiaries, but received no remuneration in those capacities.

11. Comparative figures

Certain 1974 figures in the financial statements have been reclassified to conform to the 1975 presentation.

Auditors' Report

To the Shareholders of
Anglo American Corporation of Canada Limited:

We have examined the consolidated balance sheet of Anglo American Corporation of Canada Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We did not examine the financial statements of Whitehorse Copper Mines Ltd. and the joint venture which are reflected in the accompanying financial statements using the equity method of accounting. These financial statements which we did not examine were reported upon by other auditors and our opinion, insofar as it relates to the amounts included for such company and joint venture, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells
Chartered Accountants

Toronto, Ontario,
March 17, 1976.

